

SECTION II	(writer)	(div)	(ed)	(copy in)	(status)	ORE PICKUPS	SPECIALS
A) GENERAL 25X6A	CHANE				CONFIDENTIAL	(update)	
		NOON MON.					
C) KOREA		PM MONDAY					
D) CHINA	MIL. SIAI LAMA N.W.	11:30 NOON MON.	all edit by noon Tues			✓	
E) INDOCHINA							
F) THAILAND	PARLIAMENT VOTES						POSSIBLE SPECIAL DEAD
G) MALAYA							
H) BURMA	FO/MIN VISIT					✓?	
I) INDONESIA	THRE?		complete by 3:30				
J) PHILIPPINES	IMPLICAT. VISIT.					✓	
K) 25X6A							
L) POA							
SECTION III							

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NONE

(to [redacted] 15:40)
 (to press: 16:10)
 (remarks)

DOCUMENT NO. 24
 NO CHANGE IN CLASS. ☐
☐ DECLASSIFIED
 CLASS. CHANGED TO: S
 NEXT REVIEW DATE:
 AUTH: [redacted]
 DATE: 11-27-79 REVIEWER: 372044

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COPY NO 3

FAR EAST/PACIFIC BRANCH
OFFICE OF REPORTS AND ESTIMATES
CENTRAL INTELLIGENCE AGENCY

WORKING PAPER

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OFFICE OF REPORTS AND ESTIMATES
FAR EAST/PACIFIC BRANCH

INTELLIGENCE HIGHLIGHTS NO. 61
27 JULY - 2 AUGUST 1949

SECTION I. SUMMARY OF FAR EAST TRENDS AND DEVELOPMENTS

Despite evident coolness elsewhere in Asia, Korea's President Rhee continues to welcome CHIANG Kai-shek, who is expected to visit Seoul shortly, as a charter member of the tentative Pacific pact (p. 2).

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On the Chinese war-front, Communist forces apparently have occupied Changsha on the road to Hengyang in the south and pushed a salient into eastern Kansu in the northwest (p. 3). US businessmen in Shanghai, meanwhile, feel that chaotic conditions in that city may prevail indefinitely and see nothing to be gained by remaining there any longer (p. 4).

Premier Phibul's regime in Thailand, successfully intimidating its opposition in Parliament last week, received a vote of confidence (p. 6).

Reaction of the Burmese Foreign Minister during his impending visit to the US may do much towards bringing that troubled land closer to the West (p. 7).

Philippine President Quirino, another visitor in the near future, expects to make political capital for the November election out of his trip (p. 7).

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The marginal notations used in succeeding sections of this Weekly ("A", "B", or "C") indicate the importance of the items in R/FE opinion with "A" representing the most important.

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SECTION II. DEVELOPMENTS IN SPECIFIED AREAS

GENERAL

CHIANG'S Korea visit is intended as pact feeler--CHIANG Kai-shek expects to come to Seoul for conversations with President Rhee on the proposed Pacific pact and other mutual problems. A date for the visit has not been fixed, but President Rhee has stated that CHIANG would come during August. Since Rhee had invited MacArthur and Sebald to visit Seoul for the 15 August celebration of the Republic's first anniversary, it is probable that CHIANG'S visit was being planned for the same date in order to create the impression that the US was associated officially with Pacific pact conversations. MacArthur and Sebald have declined Rhee's invitation, however, and CHIANG, in turn, may decide to make his visit to Seoul in the immediate future.

"A"

Rhee's continued pushing of the Pacific pact is motivated by the hope that a union of Pacific states could extract military commitments from the US. He appears oblivious to the blighting effect produced by CHIANG's participation in the tentative union, and apparently believes that association with CHIANG will prove to be an asset, so far as future US military aid is concerned. If the proposed negotiations result in formal Korean commitments to CHIANG's tottering regime, Rhee's government may find itself at a considerable disadvantage in the event that other Pacific nations succeed in forming a more viable union.

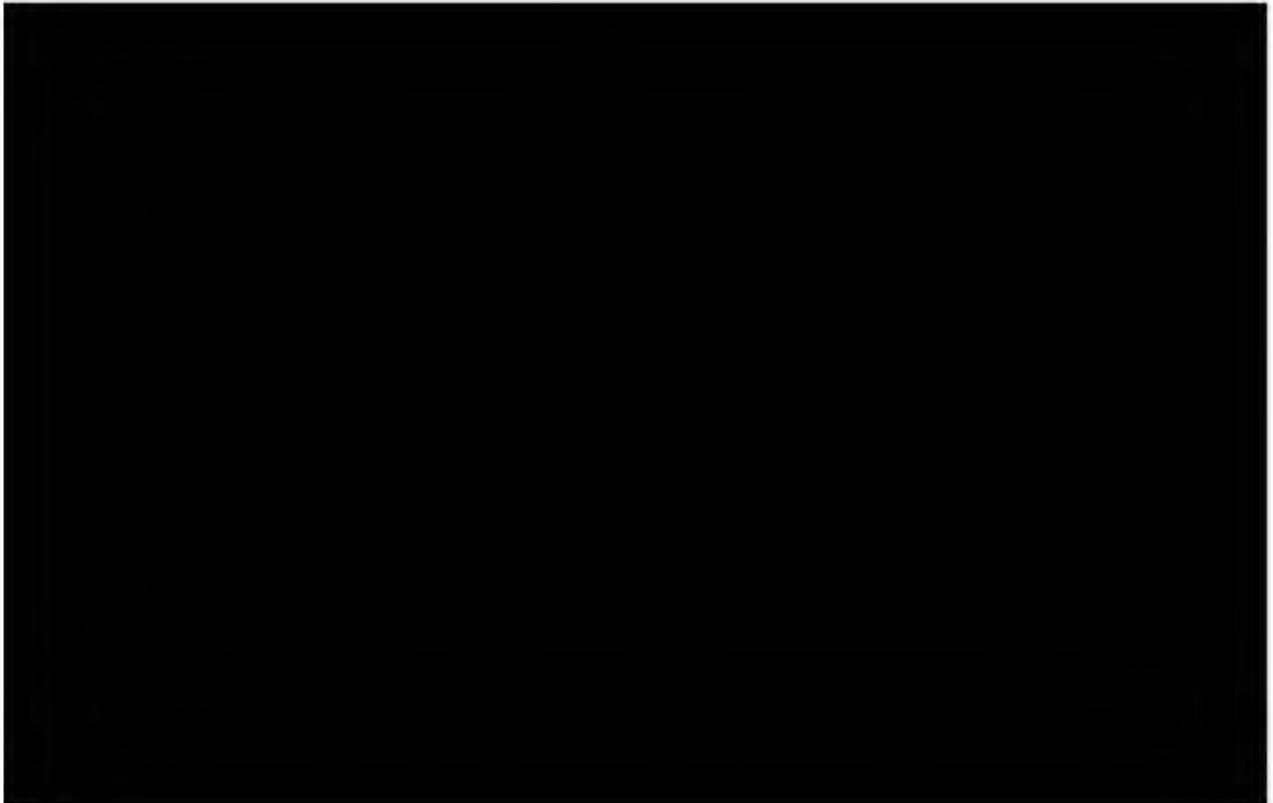
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CHINA

Communist push remains unchecked--The latest Communist military offensive "A" moved forward without impediment from Nationalist defenders last week. In south-central China, the next objective of the Communist attackers was Hengyang, the only remaining stronghold outside Kwangsi still in the hands of Nationalist General PAI Chung-hsi. The largest Communist force, already having overrun all outlying positions at Changsha, has forced PAI's withdrawal and, according to unofficial reports, has occupied the city. Another column is moving south along the western shores of Tungting Lake, where Changteh, an important market town, has been taken.

When Hengyang falls, whether because of PAI's evacuation - still the best possibility - or as a result of a decisive defeat by the Communists, little save distance will remain between these Communist forces and Canton. In this connection, an increase in activity was noted in the Kian-Kanhsien area, where the spearhead of the forthcoming drive into Kwangtung is probably being readied. The launching of this action may, however, await the successful conclusion of the operations around Hengyang.

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To the northwest, seven armies of PENG Teh-huai, after splitting HU Tsung-nan's forces by capturing Paochi, have begun to push a salient out of Shensi into eastern Kansu. This movement could develop into a full-fledged Communist effort to eradicate the forces of MA Pu-fang, but the number of Communist troops thus far committed seems hardly sufficient. It is more probable that this is the deployment of a holding force, thrown out to prevent the MAS from striking the flank of a Communist thrust south towards HU Tsung-nan's main positions along the Szechwan border. The MAS have made two such attacks in the past year. Since the Communists are faced with food problems and Szechwan, one of the richest agricultural provinces in China, has reportedly enjoyed a fine harvest, the area to the south of PENG Teh-huai's forces is presumably more inviting than the barren reaches of the northwest.

American businessmen seek exit from Shanghai--Alarmed by the recent rise of anti-foreign feeling as evidenced by mob action in Shanghai, the American Chamber of Commerce in that city has urgently recommended the evacuation of US business personnel. The Chamber of Commerce believes that US personnel are in the dangerous position of "hostages" and that the chaotic situation in Shanghai, worsened by the Nationalist blockade of the port, may prevail for an indefinite time. The Chamber foresees eventual loss of US commercial properties and working capital in China, through such Communist devices as the levying of exorbitant taxes, unreasonable demands for severance pay and heavy "ransom" exactions from key personnel. To facilitate evacuation, the Chamber favors establishment of air transportation to Hong Kong and negotiations with the Communists through the International Red Cross. "B"

The Chamber considers US aid to Nationalist China a major cause of the present difficulties and recommends severance of US relations with the Nationalists. Other US groups in Shanghai are apparently less perturbed and US businessmen in North China are more sanguine regarding future developments.

Communist problems in the Northwest--Of all the regions still in Nationalist hands, Northwest China--the provinces of Kansu, Ningsia, Tsinghai and Sinkiang--presents the CCP with the thorniest problems. The dominant figures in this area are MA Pu-fang and MA Hung-kwei, two rabidly anti-Communist Chinese Moslem warlords whose troops control the major part of the area and whose leadership is acknowledged by the predominantly Moslem, although not predominantly Chinese, population. MA Pu-fang's troops are one of the best fighting forces left in non-Communist China; they have scored victories over Communist forces in Shensi during the past two years. In addition to the problem of liquidating MA's troops, the CCP is faced "B"

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with an evident Soviet desire to regain economic control of Sinkiang, a subject of negotiations earlier this year between the USSR and the National Government.

Despite these difficulties, the Northwest is not omitted from the CCP's schedule of conquest and Tihwa, the capital of Sinkiang, was listed along with Lanchow, the capital of Kansu, as one of the sixteen centers to which the CCP's "Peiping surrender formula" would apply. Communist forces confronting MA Pu-fang in Shensi have been reinforced and are reportedly now driving into eastern Kansu. A "Northwest Corps", made up of student administrators and political cadres, is being recruited in East China and a propaganda campaign, boosting the CCP's policy of "autonomy for racial minorities", is being beamed at the Chinese and Turkic Moslems, as well the Mongols of the area. Recently, CHANG Chih-chung, former Nationalist Northwest boss who remained in Peiping after the failure of the April KMT-CCP peace negotiations, made a statement praising CCP policies and urging Nationalist diehards to admit their mistakes and give up their political power. When low supplies and mounting popular resentment of conscription make the MAS' position difficult to maintain, the CCP may find CHANG's considerable popularity in the area useful in extending and consolidating control over the Northwest.

Manchurian Communists open trade with outside world--The Northeast Administration has increased its contacts with the outside world in the three months since the opening of the port of Yingkow to commercial traffic. A second-rate port which, unlike ice-free Dairen, is frozen over four or five months of the year, Yingkow nonetheless offers important advantages to the Communists. Soviet control is absent; short rail connections exist with the cities in the Mukden area, and river traffic taps important agricultural districts to the north. A few Hongkong ships called at Yingkow during May and June, bringing raw cotton, copper, tin plate and electrical equipment in return for soy beans and bristles. Except for a little trade out of Antung earlier in the year, this was Communist Manchuria's first commercial contact of any importance with areas outside the Soviet zone. "P"

The Northeast Trade Bureau and the Northeast Transportation Administration, the agencies presumably responsible for this activity, are still in their infancy. They probably will increase the volume and efficiency of Yingkow's trade considerably before the harbor freezes

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in November. The Transportation Administration, headquartered at Yingkow, recently established a navigation branch in Dairen which is not connected with the Soviet-directed port authority already there. Additional Communist efforts to promote trade outside the Communist Far East include negotiations with the British shipping firm, Jardine-Matheson, establishment of a "Northeast Fur Company," the official Communist monopoly for bristle and fur trade, and the offer of 25,000 tons of Manchurian soy beans F.O.B. Chinghuangtao, made through the medium of the North China Trading Bureau at Tientsin.

These developments do not necessarily mean that Soviet influence in Manchuria is decreasing, and, in fact, it is reported that a Manchurian mission to Moscow has just signed a trade agreement with the USSR. Nonetheless, Manchurian trade activities, previously confined to Soviet areas of control, now have extended into the non-Soviet world.

Nationalist money problems--The continuing inability of the National Government to find sufficient revenue to meet necessary expenditures constitutes the most serious threat to the new "silver certificates" currency, issued by the Central Bank in July and convertible at will into silver coin. Unless the Nationalists can eliminate government deficits which now average about 30 million silver dollars a month, they will be tempted to resort once more to the overissue of paper money to meet expenses. With the Gold Yuan fiasco still fresh in the public mind and the people still dubious about the new silver notes, however, the slightest symptom of overissue may lead to a precipitous depreciation and to a general public refusal to accept the new Nationalist currency. To counter such fears, the Finance Ministry has given assurances that the issue of silver notes will be restricted in volume and that government deficits will be met from reserves rather than from uncontrolled note issue. Exhaustion of reserves, however, is as much a threat to financial solvency as the overissue of currency. In the absence of foreign credits, nothing but a balanced Nationalist budget can prevent another cycle of currency depreciation.

"C"

THAILAND

Reshuffled regime demonstrates power--On 29 July, the new Phibul cabinet won formal Parliamentary approval in a vote of confidence, carried 63 to 31. This apparently clear-cut victory for the Government was not a result of actual majority approval but was dictated by Parliament's fears of forceful retaliation from the military clique which supports Premier

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Phibul. Opposition members in Parliament, who had directed heavy attacks at the policies and composition of the Phibul regime, presumably could have mustered sufficient votes to defeat the Government if they had dared. Parliament's reluctant approval, however, shows that the Phibul regime is sufficiently dominant to maintain control of Parliament and function with a semblance of constitutionality for the present.

BURMA

Foreign Minister E Maung to visit the US---Burmese Foreign Minister E Maung, who also holds the portfolios of Health and Judicial Affairs, is scheduled to arrive in the US from the UK on 12 August for an official visit. The results of his trip are likely to have a profound effect upon the future policies of the Burmese Government. It is understood that E Maung wishes to discuss four major topics during his stay here: 1) the extension of technical assistance to Burma under the Point IV program, 2) the possibility of developing defenses against the spread of Communism in Asia, and particularly in Burma, 3) public health topics, and 4) various judicial matters. Earlier, in the UK, E Maung is expected to consider such important subjects as a UK-Burma treaty of commerce and navigation, UK financial assistance, delineation of the Sino-Burma border and Burmese policy towards Indochina and Indonesia.

"B"

Despite some reports to the contrary, it is believed that E Maung is making a genuine effort to establish closer relations with the West as a means of restoring stability and safeguarding the independence of Burma. He exercises considerable influence in the Cabinet and could give greater impetus to the government's developing trend toward a more moderate policy. Disappointment over the accomplishments of his trip, however, could undermine, if not reverse, this favorable inclination and lend greater currency to the views of the extreme leftists in the government who maintain that the West is interested only in exploiting Burma at the expense of her political and economic independence.

PHILIPPINES

Quirino arriving for Washington discussions---President Elpidio Quirino "A" is scheduled to arrive in Washington on 8 August, in hopes of winning additional US financial and military assistance to the Philippines. The mission, if successful, presumably would increase Quirino's prestige in the forthcoming presidential elections, in which he needs all the help he can get. At a minimum, Quirino hopes to secure recognition of Philip-

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pine needs and assurances of early US consideration.

Quirino has only fair prospects of defeating the ultranationalist Jose Laurel in the November election. He can be expected to emphasize the injury which a Laurel victory would do to US-Philippine relations, in order to support his plea for further US aid. He will argue, with considerable logic, that the US should support his campaign by increasing its financial and military commitments to the Philippines. It is probable that members of Quirino's staff will solicit campaign funds among US business firms which have island interests.

The political implications of Quirino's visit in the US are quite apparent in the Philippines. The opposition Nacionalista leaders, as well as the opposition and leftist press, can be expected to accuse the President of using the US visit to bolster his election chances and will charge that the US is interfering in Philippine internal politics. Additionally, the US may be condemned for employing Quirino as a puppet to promote a Pacific union.

On the other hand, a considerable portion of the Philippine electorate will be favorably impressed by the visit even if Quirino is able to report no more on his return than that the US is earnestly and sympathetically considering Philippine economic and military problems. Ability to make even this minimum statement would also tend to increase confidence within Quirino's administration and to assure him of firmer support in the difficult months ahead.

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Approved For Release 2000/08/29 : CIA-RDP79-01090A000500030024-8

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